# Hannon Armstrong Sustainable Infr. (HASI)

*Updated November 3rd, 2023 by Nikolaos Sismanis*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $21.51 | **5 Year CAGR Estimate:** | 15.1% | **Market Cap:** | $2.33 B |
| **Fair Value Price:** | $21.95 | **5 Year Growth Estimate:** | 9.0% | **Ex-Dividend Date:** | 12/28/2023 |
| **% Fair Value:** | 98% | **5 Year Valuation Multiple Estimate:** | 0.4% | **Dividend Payment Date:** | 01/12/2024 |
| **Dividend Yield:** | 7.3% | **5 Year Price Target** | $34 | **Years Of Dividend Growth:** | 5 |
| **Dividend Risk Score:** | C | **Retirement Suitability Score:** | A | **Rating:** | Buy |

## Overview & Current Events

Hannon Armstrong is a U.S. public company entirely committed to investments in climate change solutions, providing capital to leading companies in energy efficiency, renewable energy, and other sustainable infrastructure markets. The company's portfolio of assets is worth around $5.5 billion and is split between three market segments: Its Behind-the-Meter business (50% of assets) focuses on the installation of solar power, electric storage, and other heat and power systems. The Grid-Connected segment (37% of assets) involves investments in grid-connected renewable energy projects, such as solar and off/on-shore wind projects, whose generated yield the company then sells on the wholesale energy markets. Finally, occupying around 13% of its portfolio, are the company's Sustainable Infrastructure projects, enabling the use of natural resources, such as its projects to slow pollution runoff across the Chesapeake Bay region. Hannon Armstrong has over 350 investments, with a weighted average contract life of ~13 years and an investment yield of close 7.9%. The company generates around $240 million in annual total revenues, is based in Annapolis, Maryland, and has chosen to qualify itself as a REIT due to the physical nature of its assets.

On November 2nd, 2023, Hannon Armstrong reported its Q3 results for the period ending September 30th, 2023. For the quarter, total revenues grew by 49.4% year-over-year to $89.9 million. The increase in revenues was mainly driven by a higher interest and securitization income from a larger portfolio, a higher average rate, and an increase in the managed assets balance.

Distributable EPS rose by 26.5% to $0.62 compared to the prior-year period. The increase was mainly due to higher revenues and income from sales, offset by higher interest expenses.

The company's pipeline remained robust, featuring over $5.0 billion worth of assets. This should indicate a bright future for HASI's financials in the medium-term as corporations and governments worldwide continue allocating capital toward reaching their ESG goals. Management retained its prior outlook, expecting to deliver distributable EPS CAGR between 10% and 13% through 2024. Hence, we expect FY2023 DEPS of $2.31, implying a growth of 11.5% from last year. Management also reaffirmed that annual dividends will grow at a CAGR between 5% and 8% through 2024.

## Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **DEPS**[1] | -$0.68 | $0.43 | $0.21 | $0.32 | $0.57 | $0.75 | $1.40 | $1.55 | $1.88 | $2.08 | ***$2.31*** | ***$3.55*** |
| **DPS** | $0.42 | $0.92 | $1.08 | $1.23 | $1.32 | $1.32 | $1.34 | $1.36 | $1.40 | $1.50 | ***$1.58*** | ***$2.22*** |
| **Shares**[2] | 15.7 | 20.7 | 30.8 | 40.3 | 50.4 | 52.8 | 63.9 | 74.4 | 87.7 | 89.6 | ***109.1*** | ***135.0*** |

HASI's DEPS has been growing rapidly, in line with its asset portfolio. We expect the company to keep taking advantage of the cheap financing available for green assets to maintain this growth. We have applied a DEPS growth rate of 9% through 2028, lower than management's DEPS growth guidance midpoint of 11.5% through 2024, due to potentially higher interest expenses in the years to follow. To keep investors satisfied and the stock high enough to successfully issue funds through share issuances, HASI would pay shareholders dividends through its debt proceeds while it was on

[1] Distributable earnings per share

[2] Share count is in millions.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

its way to profitability. As its past dividend yields of around 4% to 6% indicate, its cost of equity was lower than its investment yield (~7.7%), and hence its growth strategy was viable. DEPS recently caught up to its distributions, self-funding the dividend. We retain our dividend growth estimate to 7% to reflect HASI's official estimates and latest dividend raise.

## Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/DEPS | --- | 32.5 | 90.4 | 65.6 | 42.1 | 24.6 | 20 | 15.9 | 29.2 | 16.3 | ***9.3*** | ***9.5*** |
| **Avg. Yld.** | 4.8% | 6.1% | 6.3% | 5.7% | 6.0% | 6.6% | 4.6% | 4.6% | 2.6% | 4.4% | ***7.3%*** | ***6.6%*** |

HASI's historical P/E ratio reflects the market's expectations for the company's rapid DEPS growth, hence the prolonged premium. We have set our fair P/DEPS multiple at 9.5, which reflects both the higher equity risk premium investors ought to require from a YieldCo in the current environment and the company's growth prospects. Thus, at a P/DEPS of 9.3, we believe that HASI is more or less fairly valued. The stock yields a notable 7.3%, which income investors are likely to appreciate considering the bold dividend growth guidance.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

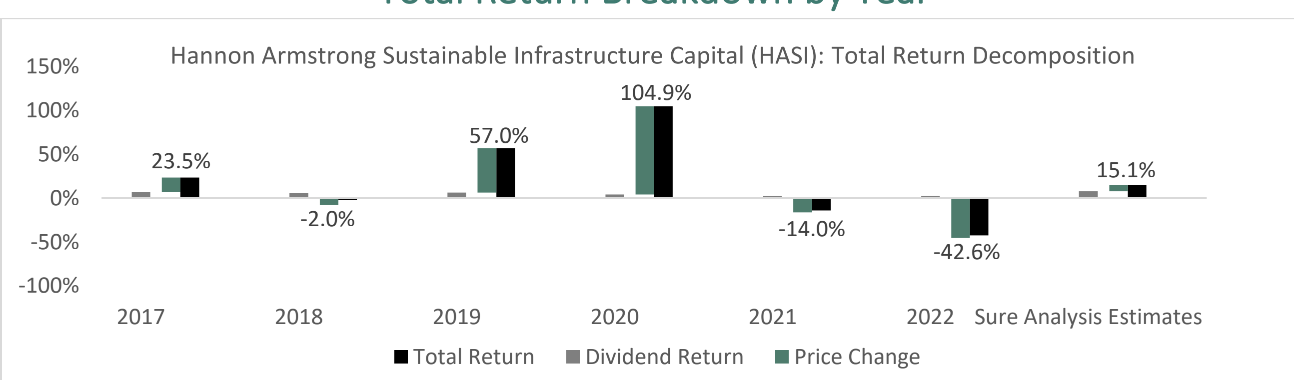
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | | 214% | 514% | 384% | 232% | 176% | 96% | 88% | 74% | 72% | ***68%*** | ***62%*** |

HASI's risky dividend strategy has paid off so far. Current payouts should now be quite safe, though they will likely not grow as fast. The company's competitive advantage includes a leading market position in a relatively new and booming industry and a global push for renewables, which should ensure a long-term rich backlog and cheap financing, further boosting its ROI. It's also worth mentioning that 86% of its Board of Directors is independent, while its management is not composed of just the usual Ivy League MBA executives but also holds various distinctions such as CPAs and CFAs, equipped with the skills to pull off some complex financial engineering, including HASI's early financing strategy. Based on an extremely favorable industry outlook and HASI's robust pipeline, we believe that the company will keep performing well. A rising cost of capital amid rising rates could hurt its bottom line growth prospects, nonetheless.

## Final Thoughts & Recommendation

Despite its small market cap, Hannon Armstrong is one of the leading diversified renewable energy asset operators. Management has proven its skills in rapidly growing HASI's infrastructure portfolio while its backlog stands at an all-time high. We now forecast annualized returns of 15.1% through 2028, powered by the stock's 7.3% yield, our DEPS and DPS growth estimates, and relatively stable valuation assumptions. Shares earn a buy rating.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 26.2 | 32.2 | 42.1 | 62.8 | 84.7 | 141.5 | 142.7 | 218 | 155.5 |
| **SG&A Exp.** | 5.9 | 7.3 | 8.3 | 11.2 | 15.1 | 14.7 | 14.9 | 20 | 30 |
| **D&A Exp.** | 2.6 | 4.0 | 7.7 | 3.6 | 4.5 | 3.6 | 3.6 | 3.8 | 4 |
| **Net Profit** | 9.6 | 8.0 | 14.7 | 30.9 | 41.6 | 81.6 | 82.4 | 127 | 41.5 |
| **Net Margin** | 36.7% | 24.7% | 34.8% | 49.1% | 49.1% | 57.6% | 57.7% | 58.3% | 26.7% |
| **Free Cash Flow** | 5.1 | 18.5 | 56.9 | 11.7 | 58.8 | 29.5 | 72.3 | 13.3 | 0.2 |
| **Income Tax** | 0.0 | 0.1 | 0.1 | 0.9 | 2.1 | 8.1 | -2.8 | 17.2 | 7.4 |

## Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | 26.2 | 32.2 | 42.1 | 62.8 | 84.7 | 141.5 | 3459 | 4148 | 4760 |
| **Cash & Equivalents** | 5.9 | 7.3 | 8.3 | 11.2 | 15.1 | 14.7 | 286.3 | 226 | 156 |
| **Total Liab.** | 2.6 | 4.0 | 7.7 | 3.6 | 4.5 | 3.6 | 2249 | 2582 | 3095 |
| **Accounts Payable** | 9.6 | 8.0 | 14.7 | 30.9 | 41.6 | 81.6 | 59.9 | --- | --- |
| **Long-Term Debt** | 337 | 635 | 911 | 975 | 1428 | 1242 | 1393 | 2189 | 2493 |
| **Total Equity** | 5.1 | 18.5 | 56.9 | 11.7 | 58.8 | 29.5 | 1203 | 1545 | 1629 |
| **LTD/E Ratio** | 0.0 | 0.1 | 0.1 | 0.9 | 2.1 | 8.1 | 1.8 | 1.61 | 1.83 |

## Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| **Return on Assets** | 1.2% | 0.6% | 0.9% | 1.5% | 1.9% | 3.6% | 2.8% | 3.3% | 0.9% |
| **Return on Equity** | 4.6% | 2.3% | 2.9% | 5.1% | 5.8% | 9.4% | 7.7% | 9.2% | 2.6% |
| **ROIC** | 1.4% | 0.7% | 1.0% | 1.7% | 2.0% | 3.7% | 2.9% | 3.4% | 1.0% |
| **Shares Out.** | 20.7 | 30.8 | 40.3 | 50.4 | 52.8 | 64.8 | 74.4 | 87.7 | 90.6 |
| **Revenue/Share** | 1.27 | 1.05 | 1.04 | 1.25 | 1.60 | 2.18 | 1.92 | 2.49 | 1.72 |
| **FCF/Share** | 0.25 | 0.60 | 1.41 | 0.23 | 1.11 | 0.46 | 0.99 | 0.15 | 0.00 |

*Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.*